



Massachusetts Department of Public Health Determination of Need Application Form

Version: 8-15-17

Application Type: Application Date: 10/25/2017 3:30 pm

Applicant Name:

Mailing Address:

City: State: Zip Code:

Contact Person: Title:

Mailing Address:

City: State: Zip Code:

Phone: Ext: E-mail:

Facility Information

List each facility affected and or included in Proposed Project

1 Facility Name:

Facility Address:

City: State: Zip Code:

Facility type: CMS Number:

1. About the Applicant

1.1 Type of organization (of the Applicant):

1.2 Applicant's Business Type: ☒ Corporation ☐ Limited Partnership ☐ Partnership ☐ Trust ☐ LLC ☐ Other

1.3 What is the acronym used by the Applicant's Organization?

1.4 Is Applicant a registered provider organization as the term is used in the HPC/CHIA RPO program? ☐ Yes ☒ No

1.5 Is Applicant or any affiliated entity an HPC-certified ACO? ☐ Yes ☒ No

1.6 Is Applicant or any affiliate thereof subject to M.G.L. c. 6D, § 13 and 958 CMR 7.00 (filing of Notice of Material Change to the Health Policy Commission)? ☒ Yes ☐ No

1.7 Does the Proposed Project also require the filing of a MCN with the HPC? ☒ Yes ☐ No

1.7.a If Yes, has Material Change Notice been filed? ☒ Yes ☐ No

1.7.b If yes, provide the date of filing.

10/25/2017

1.8 Has the Applicant or any subsidiary thereof been notified pursuant to M.G.L. c. 12C, § 16 that it is exceeding the health care cost growth benchmark established under M.G.L. c. 6D, § 9 and is thus, pursuant to M.G.L. c. 6D, §10 required to file a performance improvement plan with CHIA? ☐ Yes ☒ No

1.9 Complete the Affiliated Parties Form

2. Project Description

2.1 Provide a brief description of the scope of the project.

The Applicant is the sole corporate shareholder of AdCare Hospital of Worcester, Inc. ("AdCare Hospital"). Pursuant to a Securities Purchase Agreement, dated September 13, 2017, by and among AdCare Holding Trust, the Applicant, AAC Holdings, Inc., and AAC Healthcare Network, Inc. ("AAC"), the proposed transaction will result in AAC, a wholly owned subsidiary of AAC Holdings, Inc., becoming the sole corporate shareholder of the Applicant. Thereafter, AdCare Hospital will be an indirect subsidiary of AAC Holdings, Inc. AAC is a leading national provider of inpatient and outpatient substance use disorder treatment services. As a result, the proposed Transfer of Ownership will permit AAC to work together with AdCare Hospital by providing additional treatment resources and administrative efficiencies that allow for economies of scale and cost savings to AdCare Hospital's operations. AAC brings significant administrative expertise and capacity, and it is expected that AdCare Hospital will be able to realize improved functional capabilities while achieving operating efficiencies to help keep overhead low.

2.2 and 2.3 Complete the Change in Service Form

3. Delegated Review

3.1 Do you assert that this Application is eligible for Delegated Review? ☐ Yes ☒ No

4. Conservation Project

4.1 Are you submitting this Application as a Conservation Project? ☐ Yes ☒ No

5. DoN-Required Services and DoN-Required Equipment

5.1 Is this an application filed pursuant to 105 CMR 100.725: DoN-Required Equipment and DoN-Required Service? ☐ Yes ☒ No

6. Transfer of Ownership

6.1 Is this an application filed pursuant to 105 CMR 100.735? ☒ Yes ☐ No

6.2 If Yes, Is Applicant's Proposed Project subject to 958 CMR 7.00 (Notices of Material Changes and Cost and Market Impact Reviews)? ☒ Yes ☐ No

6.3 Does the Proposed Project constitute the transfer of the Health Care Facility's license in its entirety to a single transferee? ☒ Yes ☐ No

6.4 Which of the following most closely characterizes the Proposed Project;

- ☐ A transfer of a majority interest in the ownership of a Hospital or Clinic;
- ☐ A transfer of a majority of any class of the stock of a privately-held for-profit corporation;
- ☐ A transfer of a majority of the partnership interest of a partnership;
- ☐ A change of the trustee or a majority of trustees of a partnership;
- ☐ Changes in the corporate membership and/or trustees of a non-profit corporation constituting a shift in control of the Hospital or Clinic;
- ☐ Foreclosure proceedings have been instituted by a mortgagee in possession of a Hospital or Clinic;
- ☒ A change in the ownership interest or structure of a Hospital or Clinic, or of the Hospital or Clinic's organization or parent organization(s), such that the change results in a shift in control of the operation of the Hospital or Clinic.

6.5 Explain why you believe this most closely characterizes the Proposed Project.

The Applicant is the sole corporate shareholder of AdCare Hospital. Pursuant to a securities purchase agreement, dated September 13, 2017, the proposed transaction will result in AAC becoming the sole corporate shareholder of the Applicant. Thereafter, AdCare Hospital will be an indirect subsidiary of AAC, which is a leading national provider of inpatient and outpatient substance use disorder treatment services.

6.6 In context of responding to each of the Required Factors 1, 3, and 4, consider how the proposed transaction will affect the manner in which Applicant serves its existing Patient Panel in the context of value (that is cost and quality), and describe the impact to the Patient Panel in the context of Access, Value (price, cost, outcomes), and Health Disparities.

The Applicant does not anticipate any changes in health care services in connection with the proposed transaction, whether in respect to any of AdCare Hospital's reimbursement rates, care referral patterns, access to needed services, and/or quality of care.

6.7 See section on Transfer of Ownership in the Application Instructions

7. Ambulatory Surgery

7.1 Is this an application filed pursuant to 105 CMR 100.740(A) for Ambulatory Surgery?

☐ Yes ☒ No

8. Transfer of Site

8.1 Is this an application filed pursuant to 105 CMR 100.745?

☐ Yes ☒ No

9. Research Exemption

9.1 Is this an application for a Research Exemption?

☐ Yes ☒ No

10. Amendment

10.1 Is this an application for a Amendment?

☐ Yes ☒ No

11. Emergency Application

11.1 Is this an application filed pursuant to 105 CMR 100.740(B)?

☐ Yes ☒ No

12. Total Value and Filing Fee

Enter all currency in numbers only. No dollar signs or commas. Grayed fields will auto calculate depending upon answers above.

Your project application is for: Transfer of Ownership

12.1 Total Value of this project:

\$39,155,518.00

12.2 Total CHI commitment expressed in dollars: (calculated)

\$0.00

12.3 Transfer of ownership Filing Fee: (calculated)

\$78,311.04

12.4 Maximum Incremental Operating Expense resulting from the Proposed Project:

\$0.00

12.5 Total proposed Construction costs, specifically related to the Proposed Project, If any, which will be contracted out to local or minority, women, or veteran-owned businesses expressed in estimated total dollars.

\$0.00

13. Factors

Required Information and supporting documentation consistent with 105 CMR 100.210

Some Factors will not appear depending upon the type of license you are applying for.

Text fields will expand to fit your response.

Factor 1: Applicant Patient Panel Need, Public Health Values and Operational Objectives

F1.a.i Patient Panel:

Describe your existing Patient Panel, including incidence or prevalence of disease or behavioral risk factors, acuity mix, noted health disparities, geographic breakdown expressed in zip codes or other appropriate measure, demographics including age, gender and sexual identity, race, ethnicity, socioeconomic status and other priority populations relevant to the Applicant's existing patient panel and payer mix.

The proposed transfer of ownership brings together two national leaders in addiction care, AdCare Hospital of Worcester, Inc. ("AdCare Hospital" or the "Hospital") and American Addiction Centers, Inc. ("AAC") to serve the patient population.

AdCare Hospital specializes in treating patients with substance use disorders ("SUDs") on both an inpatient and outpatient basis. AdCare Hospital holds a hospital license issued by the Department of Public Health ("DPH") as well as certificates of approval from DPH's Bureau of Substance Abuse Services ("BSAS") to provide inpatient and outpatient substance abuse treatment services.

AdCare Hospital began providing SUD services in 1975 with a ten-bed alcoholism unit at 107 Lincoln Street, Worcester. Today, AdCare Hospital has expanded to become a full-service inpatient and outpatient SUD provider. AdCare Hospital provides medically managed detoxification, rehabilitation (post-detoxification substance use treatment) and acute residential services to inpatients in 114-beds in Worcester and operates five (5) outpatient hospital satellites throughout the Commonwealth: Boston, North Dartmouth, Quincy, West Springfield and Worcester. AdCare Hospital's services provide patients, the majority of whom are diagnosed and discharged with a comorbid medical or psychiatric diagnosis, with access to a full spectrum of treatment and recovery services as discussed in more detail later in Factor 1. These comorbidities are managed in coordination with SUD services by the hospital's medical staff, who round daily with hospital inpatients and coordinate closely with each patient's primary care physician ("PCP"). The hospital Case Management Services team works to connect patients without a PCP to an appropriate PCP so that SUD treatment becomes integrated into the patient's ongoing healthcare services. Such integrated care is a key factor for long-term recovery.

AAC is a national provider of inpatient and outpatient addiction treatment services, with experience in the development and performance of specialized laboratory testing for the detection of natural and synthetic opiates, and in addiction research. AAC's mission is to provide quality, comprehensive, compassionate, and innovative care to individuals struggling with alcohol and drug diagnoses and mental/behavioral health issues. AAC currently operates in eight (8) states across the United States. AAC's treatment model consists of residential treatment facilities, outpatient centers and sober living housing. AAC operates ten (10) residential SUD treatment facilities, eighteen (18) outpatient centers, and four (4) sober living facilities.

AdCare Hospital serves the entire Commonwealth, as demonstrated by the utilization data for the 36 month period covering FY 2014 - FY 2016. In addition, AdCare Hospital draws a small number of patients from neighboring states.

The parties do not anticipate that the proposed transfer of ownership of AdCare Hospital will impact the composition of the patient panel. AdCare Hospital, in partnership with AAC, will continue to serve the entire Commonwealth. As discussed later in Factor 1, this proposed transfer of ownership will provide additional treatment resources and administrative efficiencies that will allow for economies of scale and cost savings to enhance AdCare Hospital's operations and, consequently, the services it provides to patients.

General

Over the past 36 months, AdCare Hospital treated 4,435 unique* inpatients in FY 2014, 4,338 in FY 2015, and 4,192 in FY 2016. AdCare served 7,352 unique outpatients in FY 2014, 7,174 in FY 2015, and 7,207 in FY 2016. The Hospital has an average length of stay of approximately 6.5 days for inpatient services. The average age of a patient seeking treatment from AdCare Hospital for inpatient services is 44 years old and for outpatient services is 36 years old.

The data trends show that there are notable differences in the young adult (age 18-25) population relative to older patients, particularly with respect to drug use and especially opioid use. For example, in FY 2016 the majority of patients in this age group presented for inpatient admission with a drug-related diagnosis as their most prevalent diagnosis. 68% of these patients were diagnosed with drug only diagnoses, compared to other age groups where it was approximately 33%. Similarly, 92% of this age group presented with opioid dependence compared to 61% in other age groups. This is consistent with the Commonwealth's findings that since 2011, patients between the ages of 20 and 44 have comprised the largest share of opioid-related hospital discharges [1]. In light of this data, AdCare Hospital has developed specifically tailored programs to ensure that it has the resources to meet the emerging needs of young adults entering treatment.

*Unique during the applicable fiscal year

Acuity Mix

The patients receiving care at AdCare Hospital have a variety of SUD diagnoses. In many cases the patients have polysubstance dependence, meaning they are addicted to a combination of substances. In reviewing the patient panel for FY 2016, the most prevalent diagnoses were alcohol (63%) and opioid (64%) dependence. Other common diagnoses include substance use disorders relating to sedative/hypnotic/anxiolytics (24%), cocaine (7%), cannabis (3%), and amphetamines (2%).

Notably the percentage of alcohol related diagnosis increased from 43% and 47% in FY 2014 and FY 2015, respectively, to 63% in 2016. This increase mirrors emerging national data suggesting an increase in alcohol use disorders.

The majority of the patient panel presents with psychiatric or medical comorbidities as described below.

In the inpatient setting, eighty-one percent (81%) of AdCare Hospital's patient panel is diagnosed with a comorbid psychiatric diagnosis, including depression (27%), bipolar disorder (24%), post-traumatic stress disorder (19%), attention deficit hyperactivity disorder (9%), other anxiety disorders (38%), and psychosis, including schizophrenia (2%). Outpatients tend to be slightly less psychiatrically complex, diagnosed with depression (19%), bipolar disorder (6%), post-traumatic stress disorder (7%), or other anxiety disorders (18%).

[See Exhibit 1 – Chart 1]

Inpatients often have significant medical comorbidity, as seventy percent (70%) of discharges are diagnosed with a comorbid medical diagnosis as part of the comprehensive history and physical ("H&P") examinations. Outpatients tend to be less medically complex than inpatients and are screened appropriately for level of care and identification of need for other medical services. If the outpatient screening indicates that the patient is appropriate for the setting but should also be seen by a primary care provider or specialist, the counselor will make that recommendation and assist with identifying a provider. If the outpatient screening indicates the patient is not clinically appropriate for the setting, the counselors will refer the patient to an appropriate resource.

AdCare Hospital is in a unique position to improve public health through careful screening and assessment of a vulnerable, medically complex, and frequently underserved population. Many common diagnoses shown in the table above are directly tied to addiction or can be difficult for someone struggling with addiction to manage effectively, increasing the likelihood of emergency room visits and other acute medical events. As discussed in more detail later in Factor 1, these medical comorbidities are managed by the Hospital's medical staff, who coordinate closely with patients' PCPs or work to connect patients with a PCP so that SUD treatment becomes integrated into the patient's ongoing primary care upon discharge. Though withdrawal management may occur in other acute care hospitals, AdCare Hospital's treatment is delivered by a specialized addiction treatment team with the training and experience to provide medically managed acute detoxification in coordination with patient education, counseling, motivational interventions and family involvement. The team assists the patient and family (or other personal supports) in recognizing the need for ongoing addiction treatment in the appropriate level of care and facilitates the patient's transfer to such care once the medical withdrawal has been completed. The development and implementation of a comprehensive continuing care plan has been demonstrated to enhance recovery and reduce readmissions.

Geographic Breakdown

The Hospital's inpatient patient panel covers a range of approximately 579 zip codes with ninety-three percent (93%) of the patients residing in the Commonwealth. The largest region served by AdCare Hospital is central Massachusetts where the inpatient facility and one outpatient satellite are located. Zip code data reveal that the inpatient hospital draws patients of higher acuity from across the Commonwealth.

[See Exhibit 1 – Chart 2]

Outpatient admissions tend to be more localized within the catchment area of the outpatient facility. Detailed zip code data for inpatient and outpatient locations are presented in Exhibit 2.

Race and Ethnicity

AdCare Hospital is committed to treating all patients regardless of disability, race, gender, gender identification, creed, ethnic origin, sexual orientation, religion, age, socioeconomic status or ability to speak English. Data based on patient self-reporting in 2016 demonstrates that 82% of AdCare Hospital's inpatient population identified as Caucasian/White, 10% identified as Hispanic, 7% identified as African American/Black, and 1% identified as Other. In the outpatient satellites, 87% identified as Caucasian/White, 7% identified as Hispanic, 6% identified as African American/Black, and 1% identified as Other. This correlates with the racial and ethnic profile of Worcester County, where, as of July 1, 2016, 86% of the population was White alone, 11% was Hispanic or Latino, and 5.6% was

Black or African American alone [2]. The demographics show that AdCare Hospital treats significantly more males (64%) than females (36%). This data aligns, generally, with the data included in the BSAS' Description of Admission to BSAS/Contracted/Licensed Programs (Massachusetts FY 2014), which shows statewide client characteristics of 81.0% White, 6.6% Black or African American, and 11.7% Hispanic, with 68.4% of clients listed as Male and 31.5% listed as Female, and 0.1% listed as Transgender [3].

Payer Mix

AdCare Hospital's payer mix shows a significant commitment to providing access to Medicare and MassHealth beneficiaries. Eighty percent (80%) of the inpatient revenue is from government payers (48% Medicare, 32% Medicaid, including all MassHealth products). The remaining twenty percent (20%) of inpatient revenue is predominately from commercial insurance. Fifty-five percent (55%) of the outpatient revenue is from government payers (24% Medicare, 31% Medicaid, including all MassHealth products). The remaining forty-five percent (45%) of outpatient revenue is from commercial insurance. The outpatient satellite locations tend to serve a broader range of less acute individuals in their local communities accounting for the higher mix of commercial payment. These trends are consistent with the Commonwealth's findings that state and federal government funds pay for 75% of inpatient admissions for opiates [4].

F1.a.ii **Need by Patient Panel:**

Provide supporting data to demonstrate the need for the Proposed Project. Such data should demonstrate the disease burden, behavioral risk factors, acuity mix, health disparities, or other objective Patient Panel measures as noted in your response to Question F1.a.i that demonstrates the need that the Proposed Project is attempting to address. If an inequity or disparity is not identified as relating to the Proposed Project, provide information justifying the need. In your description of Need, consider the principles underlying Public Health Value (see instructions) and ensure that Need is addressed in that context as well.

The proposed transfer of ownership will strengthen the ability of AdCare Hospital to meet the needs of current and future patients suffering from addiction. As discussed throughout Factor 1, AAC brings added scale and significant expertise to further enhance the Hospital's administrative and clinical infrastructure. AAC's resources and expertise, in combination with AdCare Hospital's extensive experience serving the needs of people with addiction in Massachusetts across all socio-economic levels, including a significant portion of MassHealth beneficiaries, will benefit patients and bring added value to Massachusetts.

The Opioid Crisis

Massachusetts and the entire nation are in the midst of an unprecedented opioid crisis. The opioid crisis is a top priority for DPH, and substance use disorders are a DoN Health Priority. As of June 2017, it has been estimated that drug overdose is now the leading cause of death for Americans under the age of 50 [5]. From 2000 to 2015, the opioid-death rate in Massachusetts quadrupled, and by 2015 it was twice the national average [6]. This crisis has been exacerbated by the increased availability of synthetic opiates like fentanyl and carfentanil, which are inexpensive to manufacture and are often mixed into heroin or other drugs [7]. Fentanyl and carfentanil have played a significant part in driving a rapid increase in opioid-related overdose deaths in Massachusetts, from 961 in 2013 to an estimated 2,069 in 2016, a 115% increase in three (3) years [8] and [9]. This is consistent with the Health Policy Commission's finding that in 2015, 57% of opioid-related deaths tested positive for fentanyl, and during the first six months of 2016, that number rose to 66% [10].

The Governor's Working Group on Opioids and other public and private initiatives are beginning to make significant progress via a multifaceted strategy to increase public awareness, reduce availability of prescription opiates, and expand availability of treatment in the Commonwealth. For example, DPH announced in July 2017 that it is providing \$100,000 in naloxone grants to 10 community health centers [11]. These grants coincide with a new statewide public information campaign targeting people who use opioids, as well as their families and friends [12]. The campaign encourages people to carry and use naloxone at the first signs of an overdose and to call 911 for help [13]. Additionally, \$500,000 in funding was made available to five Houses of Correction to provide a wide range of treatment and recovery services to those incarcerated with an opioid use disorder and will target individuals within two months of release [14]. The Commonwealth's most recent quarterly data on the opioid epidemic indicates that opioid-related deaths fell five percent (5%) in the first six months of 2017 versus the same period last year, and that the death rate is slowing year over year [15].

AdCare Hospital already plays a substantial role in addressing this deadly epidemic. Worcester, where the inpatient hospital facility and one outpatient satellite are located, has been identified as a statewide "hot spot," including one of the Commonwealth's top 10 zip codes with the greatest rate of opiate-related inpatient admissions [16]. Massachusetts has been ranked among the highest states in fentanyl seizures as of 2015 [17]. As part of the Middle District Attorney's Office 2016 Heroin and Opioid State Crime Reduction Grant award, Hospital staff participate through the Office of the Worcester County District Attorney in program monitoring meetings, coordination and implementation of services for individuals transported to Leominster Hospital's Emergency Department by local police or following local police response to an opioid overdose and follow-up with overdose victims and/or family following initial intervention.

AAC brings significant technical capability to AdCare Hospital in the form of advanced laboratory tests capable of detecting fentanyl, carfentanil, and 52 other related synthetic opiates. AAC's laboratory is utilized across the spectrum of substance use disorder services,

thereby contributing to the treatment efforts. AAC's laboratory scientists work closely with law enforcement to identify new synthetic drugs for which no test exists so that new tests can be developed. With the rapid proliferation of new synthetics, many additional tests are currently in research and development in the AAC laboratory.

Significant Rise in Alcohol Use Disorders

While much of the nation's attention is focused on the opiate crisis, there is a parallel crisis of increased prevalence of alcohol use disorders. A study in the September 2017 issue of "The Journal of the American Medical Association (JAMA) Psychiatry" noted substantial increases in alcohol use between 2001 and 2013 [18]. During that period, alcohol use increased by 11.2%, high-risk alcohol intake increased 29.9%, and diagnosable alcohol use disorders increased by 49.4% (from 8.5% to 12.7%). This trend cuts across most population groups, with the greatest increases among women, older adults, racial/ethnic minorities, and the socioeconomically disadvantaged.

In Massachusetts, AdCare Hospital's patient panel demographic data reflects increases in the number of patients receiving inpatient treatment for use of alcohol in combination with other drugs, with an eight percent (8%) increase over a three-year period. Forty-one percent (41%) of inpatients in FY 2016 were treated for both alcohol and drug addiction. The increase in alcohol dependence can be attributed, in part, to the larger number of drug dependent patients abusing alcohol in addition to their primary drug dependence. Alcohol dependence requires more medical intensity during the withdrawal management phase and also increases the likelihood of medical complications for the patient.

Medical Comorbidity

It has become increasingly clear in recent years that comorbidity of addictions, mental health disorders, and chronic medical diagnoses is driving poor health outcomes and elevated medical expenses. The Center for Health Care Strategies published an analysis of Medicaid data demonstrating that adding a SUD diagnosis to a chronic medical diagnosis, such as diabetes, coronary disease, COPD, hypertension, or congestive heart failure significantly increases annualized medical expense [17]. For example, the annual cost for an individual with diabetes (in 2010 dollars) is \$9,948. When an addiction diagnosis is added, the costs balloon to \$16,267 [17]. Adding a third mental health diagnosis would drive the total expense to \$36,730.

Because people struggling with addiction are often poorly connected with primary care and may be disenfranchised from the broader health care system, it is imperative to conduct screening and medical assessment appropriate to the treatment setting for people entering addiction care. As demonstrated by the medical diagnosis data shared in the previous section, AdCare Hospital does an exceptional job identifying medical comorbidities (70% of discharges in FY2016 had an identified medical issue). At AdCare Hospital, all inpatients are seen daily by the medical staff. These internists are able to manage and address comorbidities during the inpatient stay. This allows for comprehensive medical assessment as well as medical management of co-occurring medical issues. If a medical comorbidity requires specialty or other care beyond the Hospital's capabilities, patients are transferred to an appropriate setting.

As noted earlier, the increase in alcohol misuse/dependence increases medical complications. The medical staff at AdCare Hospital manages existing diagnoses and identifies and treats new or previously undiagnosed diagnoses. Coordinating care with the patient's PCP is a routine component of care and discharge planning for both inpatients and outpatients. Follow up appointments are scheduled for patients with their PCPs, and the Hospital's Case Management Services team assists patients who do not have a PCP provider to identify a PCP prior to discharge. Discharge summaries are sent to the PCP so that treatment of the alcohol and drug use disorder becomes integrated into the patient's ongoing primary care. Outpatient staff inform PCPs about the patient's diagnosis and participation in addiction treatment so that such involvement is encouraged and monitored by the PCP.

F1.a.iii **Competition:**

Provide evidence that the Proposed Project will compete on the basis of price, total medical expenses, provider costs, and other recognized measures of health care spending. When responding to this question, please consider Factor 4, Financial Feasibility and Reasonableness of Costs.

Massachusetts health care market on the basis of price, total medical expenses, provider costs or other recognized measures of health care spending. AdCare Hospital believes this transaction will best position the organization to continue providing high quality, cost effective services to its patients in a performance-based reimbursement environment that emphasizes quality, cost-effective care, including through the implementation of the MassHealth accountable care organization ("ACO") program and other population health initiatives.

AdCare Hospital has a well-established, long-term commitment to serving a broad cross section of Massachusetts residents, specifically those with Medicare and MassHealth. Eighty percent (80%) of AdCare Hospital's care is provided to Medicare and MassHealth patients (48% Medicare, 32% MassHealth), with the remaining twenty percent (20%) of care reimbursed by commercial insurance. With a focus on cost containment and meeting the Commonwealth's cost growth benchmark, one of the challenges for AdCare Hospital is that it is a relatively small specialty provider as compared to the multi-specialty provider systems in which hospitals typically operate. This makes

achieving economies of scale difficult to attain for administrative services, such as marketing, finance, information technology, billing, data analytics, and legal services. AAC brings significant administrative expertise and capacity in these areas, and it is expected that the Hospital will be able to realize improved functional capabilities while achieving operating efficiencies. This will help the Hospital control expenses while continuing to provide excellent patient service.

AdCare Hospital's annualized revenue in 2016 of approximately \$50M represents less than one-tenth of one percent of Massachusetts' \$57.4 Billion total health care spending as of 2015 [19]. The parties expect that AdCare Hospital's existing payer contracts will be maintained in the proposed transfer of ownership. Since AAC does not currently have a footprint in Massachusetts, it is unlikely that AdCare Hospital would gain any material leverage in commercial payer contracting that would impact costs in Massachusetts, and most of its patients are government pay. AAC seeks to be an addiction solution for people of all economic means nationwide. As a well-established and respected provider in Massachusetts, AdCare Hospital will enable AAC to expand access to the addiction treatment services that AAC provides for Massachusetts residents and provide another resource to address the SUD crisis.

AdCare Hospital believes, in the long term, that the proposed transfer of ownership will result in improved access and a reduction in total medical expenditures. As stated above, overall medical costs for patients with comorbid SUDs and other medical diagnoses are disproportionately high, and effective addiction treatment has been demonstrated to reduce overall medical expense [20]. AAC also brings a strong commitment to outcomes studies and research. This will benefit AdCare Hospital by providing valuable data to inform ongoing program development and in demonstrating to payers the effectiveness of its programs in helping to reduce overall medical costs for its patients, while enhancing outcomes.

F1.b.i Public Health Value /Evidence-Based:

Provide information on the evidence-base for the Proposed Project. That is, how does the Proposed Project address the Need that Applicant has identified.

The addiction treatment industry is predominantly comprised of small providers of varying service levels that lack the infrastructure to track treatment outcomes. This makes it difficult to address this critical need of the current addiction crisis at broad scale. The proposed transfer of ownership will directly address this challenge. Achieving excellent clinical outcomes requires exceptional expertise, strong information technology and analytics, and the ability to deliver consistent outcomes at scale.

AAC is changing the industry by using its scale and know how to deliver better outcomes for patients, families, the public, and payers. AAC has recently completed a comprehensive, independently conducted, multi-year study of recovery outcomes, demonstrating that 63% of AAC clients were fully abstinent one (1) year following treatment. AAC provides a comprehensive, evidence-based, medically-oriented approach to addiction treatment, based on the underlying biology of addiction and complemented by the latest advances in recovery. AAC's comprehensive treatment approach also yields benefits to psychiatric symptoms (decreased 56%), overall medical problems (decreased 44%), and family conflict (decreased 94%).

The proposed transfer of ownership will also further strengthen a continuum of addiction services in Massachusetts. AdCare Hospital has a 40 year history in the region with a strong reputation for quality and multiple entry points through its outpatient satellites. AAC brings specialized programming and relationships with unions, first responders and veterans to add to this organization. The combined entity's availability of general and specialized services will provide excellent synergies and enhance access to people seeking addiction care.

Evidence Base for Addiction Treatment

The scientific understanding of addiction as a core brain disease and a chronic, relapsing illness - as opposed to a character flaw or moral weakness - has advanced dramatically over the last 30 years [21]. Today, the best evidence supports a comprehensive medical approach to address the underlying neurobiology of addiction, supported by a range of evidence-based behavioral interventions, and ultimately community-based recovery and self-help groups (often Twelve-Step but many options exist) [22]. Recent advances have provided exceptional medications to help treat addictions, including buprenorphine and vivitrol, referred to as Medication Assisted Therapy ("MAT"). MAT works best in combination with behavioral therapies, such as cognitive-behavioral techniques, motivational enhancement, and family therapy [23]. These and other therapies should be provided in a coordinated manner at varying levels of intensity in accordance with the individualized needs of each patient [24].

AdCare Hospital treats addiction as a disease and utilizes medication as appropriate in its treatment. Inpatients are educated about detoxification medications, medications for medical and psychiatric illnesses, and MAT. The medical staff discusses options with patients on rounds and will initiate medications such as acamprosate, naltrexone, vivitrol, and buprenorphine, as appropriate. In addition to inpatient treatment, AdCare Hospital's medical staff members have a MAT outpatient practice that administers buprenorphine and vivitrol to patients who have been treated as AdCare Hospital inpatients, as well as patients who have been referred from other practitioners or facilities. All outpatients are educated about MAT. If a patient is referred to AdCare Hospital and he or she is already receiving MAT, the patient will continue to receive MAT during the inpatient medical detoxification and rehabilitation process, and will then be referred, as clinically appropriate, back to their prior outpatient program, to an AdCare Hospital outpatient program or to

another program for continued treatment.

In keeping with the science of addiction, AdCare Hospital provides a full continuum of evidence-based addiction treatment services aligning with the American Society of Addiction Medicine's ("ASAM") levels of care, including inpatient and ambulatory detoxification, inpatient rehabilitation (post detoxification substance use treatment), day treatment, intensive outpatient programming, and individual, group, and family therapy [24]. Prospective patients receive a comprehensive, multidimensional assessment prior to entering treatment and are placed into a level of care according to ASAM placement criteria [21]. Based on that assessment, appropriate pharmacotherapy will be provided in a medically supervised setting, and the patient will participate in an array of evidence-based behavioral therapies as appropriate for their level of care. The patient's successful integration back to the community is of particular importance, and AdCare Hospital integrates family into treatment early on, as well as provides comprehensive case management services to facilitate successful transitions from care and continued recovery beyond.

American Society of Addiction Medicine (ASAM) Levels of Care

AdCare Hospital offers a full spectrum of addiction treatment services for adults based upon individual needs as assessed through comprehensive evaluations at admission and throughout participation in the program. An individualized addiction treatment plan is customized according to the addiction severity, presence of a co-occurring mental health disorder, and any unique needs. Levels of care and the treatment continuum are described below.

ASAM Level 4-WM – Medical Detox: Medical detox is AdCare Hospital's highest level of care and ranges from three (3) to seven (7) days. During this phase, AdCare Hospital's medical staff see each patient daily along with nursing, counseling, and case management. Complications in withdrawal are managed as are medical and psychiatric complications. 24/7 monitoring is provided, and the physician is contacted as needed. Medical staff physicians are on call 24/7. AdCare Hospital views detoxification as medical management of withdrawal that prepares the individual to then participate in appropriate alcohol/drug treatment. During the medical detoxification program, treatment activities are provided to increase the patient's understanding of the need for continuing treatment, as well as their motivation to participate. The treatment activities consist of educational and counseling groups, exposure to self-help programs, and development of a continuing care plan. While general hospitals can provide Level IV Detox, AdCare Hospital is the only specialty SUDs provider who provides ASAM Level 4 Detox services in Massachusetts.

ASAM Level 3.7 – Medically Managed Intensive Inpatient Services: Referred to as inpatient rehabilitation, this program begins when the patient has completed detoxification and is determined physically and emotionally capable of participation. A physician or nurse practitioner sees the patient daily and manages medical and/or behavioral health disorders while the patient participates in alcohol/drug treatment. Treatment consists of educational sessions, individual and group counseling, recovery skills training, in-house and community self-help meetings, physical exercise, and family counseling sessions to prepare for reentry into the community. Staff ensure that patients are actively involved in treatment. This includes consistent attendance at treatment activities and completion of homework assignments, such as, assignments that are designed to help patients identify relapse triggers and develop strategies to address them. Along with addiction care, AdCare Hospital's co-occurring focus addresses mental health issues as part of its integrated treatment model. Co-occurring issues commonly treated are depression, bipolar disorder, anxiety, post-traumatic stress disorder, and other trauma induced or related diagnoses. Chronic pain groups are available for those patients with medical comorbidities associated with chronic pain. Treatment team meetings are held daily to review patient progress and identify continuing care needs.

ASAM Level 2.5 – Day Treatment / Partial Hospitalization Program: The day treatment program is offered at the Worcester outpatient satellite location and provides structured addiction treatment five (5) to seven (7) days a week for a minimum of six (6) treatment hours each day. Patients participate in customized treatment according to their needs consisting of daily programming, regular group therapy, and weekly individual therapy sessions as well as learning to have fun in recovery through sober recreational activities. Patients in day treatment are learning how to apply recovery skills while living in the community. Active participation in 12-Step programming is encouraged.

ASAM Level 2.1 – Intensive Outpatient Program: Intensive outpatient addiction treatment provides clients with care three (3) to seven (7) days per week, with a minimum of three (3) treatment hours each day. Frequency of participation decreases as patients become more stable in their recovery. Patients participate in individual and group counseling while they assume responsibilities in their daily lives. Day and evening intensive outpatient programming is available to allow patients to manage home and work life while balancing recovery.

ASAM Level 1.1-WM – Ambulatory Detox: Ambulatory detox services are designed to withdraw individuals from their drug of dependence with daily medical monitoring. Individuals may be appropriate as a direct admission to ambulatory detox or may be stepped down to this level of care once withdrawal is stabilized in an inpatient setting. Patients are candidates for this service if their withdrawal risk is considered minimal and there are no significant medical or psychiatric complications. Patients are expected to participate in the intensive outpatient program during the ambulatory detox to learn and practice the recovery skills necessary for abstinence. Patients are seen for a H&P by a physician and monitored daily by nursing. Length of stay in ambulatory detox ranges from five (5) days to fifteen (15) days.

ASAM Level 1: Outpatient Services: Outpatient services consist of individual, group, and family counseling to assist patients in maintaining recovery. Frequency of sessions is determined with the clinician and the patient and may be weekly, bi-weekly, or monthly. Outpatient services are available 6 days a week both day and evening to accommodate the demands of the patient's life in the community.

Soon after admission, the primary therapist, treatment team, and case manager collaboratively work with clients to begin development of strong, customized discharge plans to help maintain sobriety. Paramount in this stage is ensuring smooth transitions to family, local recovery communities, employment, and primary care, both to manage any chronic medical diagnoses and to assure that SUD is addressed into the patient's coordinated care program going forward. These plans are continually refined and tailored, as appropriate, with treatment progression. Upon discharge, clients are armed with the contacts and resources needed to continue along the road to recovery.

F1.b.ii Public Health Value /Outcome-Oriented:

Describe the impact of the Proposed Project and how the Applicant will assess such impact. Provide projections demonstrating how the Proposed Project will improve health outcomes, quality of life, or health equity. Only measures that can be tracked and reported over time should be utilized.

Measurement of public health outcomes is essential to assessing the impact of the proposed transfer of ownership. As articulated by Michael Porter in the Harvard Business Review, healthcare should be focused on "maximizing value for patients, that is achieving the best outcomes at the lowest cost" [25]. AdCare Hospital and AAC have a shared commitment to efficiently achieving superior addiction treatment outcomes as well as excellent patient satisfaction.

Outcomes

AAC conducts extensive measurement of outcomes and satisfaction. In 2014, AAC contracted with an independent research firm, Centerstone Research Institute, to conduct a 3-year longitudinal research study of AAC services involving more than 6,000 participants. That study is nearing completion, and preliminary results demonstrate that initial treatment gains are maintained when follow-up interviews are conducted 2 months, 6 months, and 12 months post-treatment. Specifically, at 12 months after discharge, results of the study demonstrate that 63% of AAC clients are able to maintain full abstinence from all substances. In addition, after one year, AAC clients report a 44% decrease in medical problems, a 56% decrease in psychiatric problems, and a 94% reduction in family conflict. With the planned transfer of ownership, AdCare Hospital, in partnership with AAC, intends to continue this commitment to measuring key metrics of satisfaction and outcome. After the transaction, AdCare Hospital will undertake similar research to enhance its current efforts to track patient outcomes.

Patient Satisfaction

AdCare Hospital has a longstanding commitment to quality care and measuring patient outcomes. Outcomes and patient satisfaction are monitored by the Performance Improvement Committee. Results from outcomes and satisfaction surveys are used to drive improvements to treatment through the Quality Treatment Committee and Quality Environment Committee.

[See Exhibit 1 – Chart 3]

AdCare Hospital and AAC will continue to track patient satisfaction on an ongoing basis to ensure consistency of results through the transfer of ownership.

F1.b.iii Public Health Value /Health Equity-Focused:

For Proposed Projects addressing health inequities identified within the Applicant's description of the Proposed Project's need-base, please justify how the Proposed Project will reduce the health inequity, including the operational components (e.g. culturally competent staffing). For Proposed Projects not specifically addressing a health disparity or inequity, please provide information about specific actions the Applicant is and will take to ensure equal access to the health benefits created by the Proposed Project and how these actions will promote health equity.

Addiction is a disease that affects all backgrounds. AdCare Hospital and AAC are deeply committed to ensuring equity for patients following the transfer of ownership. As previously noted, AdCare Hospital has a long history of serving MassHealth and Medicare patients in the Commonwealth and remains committed to serving this population following the proposed transfer of ownership. Over the years, AdCare Hospital's commitment to this population has been unwavering regardless of changes in the payer system, and AdCare Hospital has worked to ensure treatment availability for this population.

AdCare Hospital's commitment will continue in this area under AAC. AdCare Hospital seeks to play an important role in the Commonwealth's MassHealth ACO program both by contracting with MassHealth ACOs, as well as serving as a material subcontractor to

certified behavioral health community partners. AAC is committed to carrying on AdCare Hospital's mission, and AdCare Hospital will continue after the proposed transfer of ownership to provide equal access to its services regardless of race, ethnicity, gender, sexual orientation or preference, age, or disability.

Research supports that addiction treatment must be culturally competent to achieve the best outcomes [26]. Both companies have a longstanding commitment to culturally-competent care, reflected in an ethnically and racially diverse workforce, as well as ongoing education and training for all employees to ensure cultural and linguistic competence. This commitment to diversity in hiring, training, and evaluation is essential to maintaining a culturally competent environment and is reflected in the high levels of satisfaction and outcomes reported previously. AAC was recognized in 2016 by the Healthcare Equality Index for effective policies and practices related to the equity and inclusion of LGBTQ patients, visitors, and employees.

AdCare Hospital endeavors to identify and address the needs of the communities that it serves. For example, AdCare Hospital identified a need for services to meet the linguistic and cultural needs of the West Springfield population, and AdCare Hospital's West Springfield outpatient satellite location currently offers an intensive outpatient treatment ("IOP") conducted in Spanish. With AAC's expertise and infrastructure, AdCare Hospital will be even better positioned to serve underserved populations where needs are identified.

F1.b.iv Provide additional information to demonstrate that the Proposed Project will result in improved health outcomes and quality of life of the Applicant's existing Patient Panel, while providing reasonable assurances of health equity.

Through this proposed transfer of ownership, AdCare Hospital and AAC will ensure ongoing commitment to SUD services in the Commonwealth. Both companies are industry leaders and have deep expertise in addiction treatment, and it is expected that the combined experience will be able to leverage best practices from both organizations to further advance treatment models with opportunities to advance research partnerships with nearby institutions and universities.

In addition to the organizational synergies discussed earlier, AAC brings significant knowledge in the emerging area of addiction genetics. While the research on the genetics of addiction is still developing, it is becoming clear that genetic testing may be a useful adjunct to traditional MAT and behavioral therapies. Specifically, genetic testing can be used to identify likely areas of dysfunction in the limbic system, particularly in the dopaminergic system, which can be used to target pharmacotherapies to achieve faster symptom relief and better long term outcomes. AAC's laboratory offers addiction focused genetic testing, one of the few such labs in the United States. This resource, not currently available at AdCare Hospital, will be available to the Hospital's patients after the proposed transfer of ownership and is expected to a significant value added service to AdCare Hospital's patients of all backgrounds.

AAC also has a significant expertise in healthcare analytics and is able to use clinical and operational data to provide a near real-time measurement of key performance indicators from initial outreach and engagement through the discharge process. AAC facilities operate with multiple analytics dashboards that quickly highlight issues in quality of care or clinical process, allowing AAC to make rapid adjustments or corrections. AAC expects to extend this technology to AdCare Hospital in the future, which will further strengthen AdCare Hospital's ability to proactively enhance service delivery, with the capacity to rapidly identify and address issues, and to monitor the effectiveness of corrective actions taken.

F1.c Provide evidence that the Proposed Project will operate efficiently and effectively by furthering and improving continuity and coordination of care for the Applicant's Patient Panel, including, how the Proposed Project will create or ensure appropriate linkages to patients' primary care services.

As discussed in F1.a.ii, there is a growing recognition of the importance of addressing medical and psychiatric comorbidity within the context of primary addiction treatment. In FY 2016, seventy percent (70%) of AdCare Hospital's inpatient discharges carried a significant medical diagnosis, demonstrating the attention given to comprehensive and multidimensional diagnostic assessment in AdCare Hospital's services. It is also established that many patients with psychiatric and addictive diagnoses tend not to be well-connected to the primary and preventive care system often receiving most of their medical treatment through emergency departments and acute care [27].

The high rate of observed medical comorbidity in AdCare Hospital's patient panel underscores the critical importance of developing strong linkages with primary care as part of the discharge transition process. AAC's treatment model, like AdCare Hospital's model, has case managers who work closely with the patient and family from the beginning of treatment to (1) coordinate care with a patient's existing PCP or (2) identify a PCP and establish that linkage while in treatment with a clear and collaborative plan for follow-up with transition back to the community.

With the high prevalence of chronic diagnoses such as diabetes, chronic obstructive pulmonary disease, hypertension, chronic pain, hepatitis, and HIV/AIDS in the patient panel, continuity and coordination of care is essential. AdCare Hospital is unique in its ability to

care for patients with acute and chronic medical needs while at the same time managing withdrawal symptoms and providing rehabilitation services. Medical and nursing staff educate patients about the need for primary care medical follow up and coordination on a regular basis as a way of maintaining a healthy recovery. Reconnecting patients to primary care providers (or securing providers for patients) reduces use of emergency departments and urgent care centers for routine care. Providing patients with prescriptions for co-existing medical diagnoses until primary care appointments are available assists the patient in remaining medically stable, which is critical to maintaining recovery.

As stated above, AdCare Hospital looks forward to participating with MassHealth to work towards the successful implementation of MassHealth's ACO program. AdCare Hospital intends to be a certified behavioral health community partner material subcontractor providing care management services to the community partner substance use population. AdCare Hospital firmly believes that this proposed transfer of ownership will enable it to more effectively implement its participation in this program, which will ultimately lead to better outcomes and lower overall costs for the patient population, in keeping with the program's goals and the Commonwealth's public health priorities.

F1.d Provide evidence of consultation, both prior to and after the Filing Date, with all Government Agencies with relevant licensure, certification, or other regulatory oversight of the Applicant or the Proposed Project.

In preparing to submit this Application, the following individuals were consulted regarding this proposed transfer of ownership:

Department of Public Health:

- Nora Mann, Director, Determination of Need Program
- Sherman Lohnes, Director, Division of Health Care Facility Licensure & Certification
- Stephen Davis Licensure Unit Manager, Division of Health Care Facility Licensure & Certification
- Tracey Nicolosi, Director, Quality Assurance and Licensing, Bureau of Substance Abuse Services
- Rebecca Rodman, Deputy General Counsel

Health Policy Commission:

- Lois Johnson, General Counsel
- Katherine Mills, Policy Director for Market Performance

MassHealth

- Muriel Freeman, MassHealth Office of Behavioral Health

Attorney General

- Eric Gold, Chief of the Health Care Division

AdCare Hospital and AAC also made the necessary Hart-Scott-Rodino ("HSR") Notice filings to the Federal Trade Commission and the Department of Justice regarding the proposed transfer of ownership. These filings stemmed solely from AdCare's activities in Rhode Island.

F1.e.i Process for Determining Need/Evidence of Community Engagement: For assistance in responding to this portion of the Application, Applicant is encouraged to review *Community Engagement Standards for Community Health Planning Guideline*. With respect to the existing Patient Panel, please describe the process through which Applicant determined the need for the Proposed Project.

Prior to entering into a definitive agreement there was consultation with the Determination of Need Program to determine how to address community engagement in a confidential transaction prior to its announcement.

Upon announcing the transaction publicly, the parties undertook broad community engagement further outlined in F1.e.ii. to discuss the proposed transaction.

F1.e.ii Please provide evidence of sound Community Engagement and consultation throughout the development of the Proposed Project. A successful Applicant will, at a minimum, describe the process whereby the "Public Health Value" of the Proposed Project was considered, and will describe the Community Engagement process as it occurred and is occurring currently in, at least, the following contexts: Identification of Patient Panel Need; Design/selection of DoN Project in response to "Patient Panel" need; and Linking the Proposed Project to "Public Health Value".

Upon announcing the transaction publicly, AdCare Hospital and AAC undertook the following community engagement:

- A press release was issued
- Key governmental and regulatory stakeholders were contacted
- AdCare Hospital employees were notified and town halls with hospital leadership were held on September 21 and 22.
- Town halls with AdCare Hospital and AAC senior leadership were held on September 28 and 29
- AdCare Hospital's medical staff was notified in person and also invited to participate in the series of town hall meetings
- AdCare Hospital's Patient and Family Advisory Council had conversations with senior leadership
- Community partners and referral sources, such as primary care and specialty providers, were contacted
- AAC held a call with the general public to announce the transaction on September 13
- AAC has discussed the transaction with its public entity investors, public debt investors, rating agencies with analysis in both public and private forums.

For more detailed information on these activities see Exhibit 3

Factor 3: Compliance

Applicant certifies, by virtue of submitting this Application that it is in compliance and good standing with federal, state, and local laws and regulations, including, but not limited to M.G.L. c. 30, §§ 61 through 62H and the applicable regulations thereunder, and in compliance with all previously issued notices of Determination of Need and the terms and conditions attached therein .

F3.a Please list all previously issued Notices of Determination of Need

Add/Del Rows	Project Number	Date Approved	Type of Notification	Facility Name
<input type="button" value="+"/> <input type="button" value="-"/>				

F4.a.ii For each Category of Expenditure document New Construction and/or Renovation Costs.

	Category of Expenditure	New Construction	Renovation	Total (calculated)
	Land Costs			
	Land Acquisition Cost			
	Site Survey and Soil Investigation			
	Other Non-Depreciable Land Development			
	Total Land Costs			
	Construction Contract (including bonding cost)			
	Depreciable Land Development Cost			
	Building Acquisition Cost			
	Construction Contract (including bonding cost)			
	Fixed Equipment Not in Contract			
	Architectural Cost (Including fee, Printing, supervision etc.) and Engineering Cost			
	Pre-filing Planning and Development Costs			
	Post-filing Planning and Development Costs			
Add/Del Rows	Other (specify)			
<input type="checkbox"/> <input type="checkbox"/>				
	Net Interest Expensed During Construction			
	Major Movable Equipment			
	Total Construction Costs			
	Financing Costs:			
	Cost of Securing Financing (legal, administrative, feasibility studies, mortgage insurance, printing, etc			
	Bond Discount			
Add/Del Rows	Other (specify)			
<input type="checkbox"/> <input type="checkbox"/>				
	Total Financing Costs			
	Estimated Total Capital Expenditure			

Documentation Check List

The Check List below will assist you in keeping track of additional documentation needed for your application. Once you have completed this Application Form the additional documents needed for your application will be on this list. E-mail the documents as an attachment to: DPH.DON@state.ma.us

- ☒ Copy of Notice of Intent
- ☒ Affidavit of Truthfulness Form
- ☒ Scanned copy of Application Fee Check
- ☒ Affiliated Parties Table Question 1.9
- ☒ Change in Service Tables Questions 2.2 and 2.3
- ☒ Certification from an independent Certified Public Accountant
- ☒ Notification of Material Change
- ☒ Articles of Organization / Trust Agreement

Document Ready for Filing

When document is complete click on "document is ready to file". This will lock in the responses and date and time stamp the form.

To make changes to the document un-check the "document is ready to file" box. Edit document then lock file and submit

Keep a copy for your records. Click on the "Save" button at the bottom of the page.

To submit the application electronically, click on the "E-mail submission to Determination of Need" button.

This document is ready to file:



Date/time Stamp: 10/25/2017 3:30 pm

E-mail submission to
Determination of Need

Application Number: -17102515-TO

Use this number on all communications regarding this application.

☐ Community Engagement-Self Assessment form